



Novartis Investor Relations



Reconciliation of 2021 IFRS results and non-IFRS measures core results and free cash flow to exclude the impacts of the 2021 divestment of our Roche investment

April 11, 2022

Introduction

To aid the comparison of our 2022 performance with the prior year, we are providing this reconciliation of our 2021 published IFRS results and non-IFRS measures core results and free cash flow to the 2021 results, excluding the impacts related to our Roche investment, due to its divestment¹.

1. The divestment of our investment in Roche closed on December 6, 2021. For additional information see Notes 2 and 4 to the Novartis Group consolidated financial statements in the 2021 Form 20-F as filed with the SEC on February 2, 2022

First quarter 2021

Reconciliation of 2021 IFRS results and non-IFRS measures core results and free cash flow to exclude the impacts of the 2021 divestment of our Roche investment

(USD million unless indicated otherwise)	Q1 2021		
	Results as published	Our Roche investment impacts	Results excl. impacts from the divestment of our Roche investment
Operating income from continuing operations	2,415		2,415
Income from associated companies	256	-256	0
Interest expense and other financial income and expense	-221		-221
Income before tax from continuing operations	2,450	-256	2,194
Income taxes	-391		-391
Net income	2,059	-256	1,803
Earnings per share (USD)¹	0.91	-0.11	0.80
<i>Effective tax rate²</i>	<i>16.0%</i>		<i>17.8%</i>
Core operating income from continuing operations	3,957		3,957
Core income from associated companies	313	-313	0
Core interest expense and core other financial income and expense	-207		-207
Core income before tax from continuing operations	4,063	-313	3,750
Core income taxes	-650		-650
Core net income	3,413	-313	3,100
Core earnings per share (USD)¹	1.52	-0.14	1.38
<i>Core effective tax rate³</i>	<i>16.0%</i>		<i>17.3%</i>
Free cash flow⁴	1,597	-522	1,075

Core results and free cash flow are non-IFRS measures. An explanation of non-IFRS measures can be found on page 65 in the 2021 Form 20-F as filed with the SEC on February 2, 2022, and a reconciliation from IFRS results to core results can be found on page 38 of the Novartis First Quarter 2021 Condensed interim financial report - supplementary data published on April 27, 2021. 1. Earnings per share (EPS) and Core earnings per share are calculated on the amount of net income and core net income attributable to shareholders of Novartis AG. 2. Effective tax rate is calculated as Income taxes divided by Income before tax from continuing operations. 3. Core effective tax rate is calculated as Core income taxes divided by Core income before tax from continuing operations. 4. The free cash flow impact represents the dividend received in Q1 2021 from Roche in relation to the distribution of its 2020 net income. For more details of the reconciliation of Free cash flow see page 7.

Second quarter and half year 2021

Reconciliation of 2021 IFRS results and non-IFRS measures core results and free cash flow to exclude the impacts of the 2021 divestment of our Roche investment

(USD million unless indicated otherwise)	Q2 2021			HY 2021		
	Results as published	Our Roche investment impacts	Results excl. impacts from the divestment of our Roche investment	Results as published	Our Roche investment impacts	Results excl. impacts from the divestment of our Roche investment
Operating income from continuing operations	3,479		3,479	5,894		5,894
Income from associated companies	239	-241	-2	495	-497	-2
Interest expense and other financial income and expense	-212		-212	-433		-433
Income before tax from continuing operations	3,506	-241	3,265	5,956	-497	5,459
Income taxes	-611		-611	-1,002		-1,002
Net income	2,895	-241	2,654	4,954	-497	4,457
Earnings per share (USD)¹	1.29	-0.10	1.19	2.20	-0.22	1.98
<i>Effective tax rate²</i>	<i>17.4%</i>		<i>18.7%</i>	<i>16.8%</i>		<i>18.4%</i>
Core operating income from continuing operations	4,345		4,345	8,302		8,302
Core income from associated companies	278	-280	-2	591	-593	-2
Core interest expense and core other financial income and expense	-199		-199	-406		-406
Core income before tax from continuing operations	4,424	-280	4,144	8,487	-593	7,894
Core income taxes	-708		-708	-1,358		-1,358
Core net income	3,716	-280	3,436	7,129	-593	6,536
Core earnings per share (USD)¹	1.66	-0.13	1.53	3.17	-0.26	2.91
<i>Core effective tax rate³</i>	<i>16.0%</i>		<i>17.1%</i>	<i>16.0%</i>		<i>17.2%</i>
Free cash flow⁴	4,235		4,235	5,832	-522	5,310

Core results and free cash flow are non-IFRS measures. An explanation of non-IFRS measures can be found on page 65 in the 2021 Form 20-F as filed with the SEC on February 2, 2022, and a reconciliation from IFRS results to core results can be found on page 50 of the Novartis Second Quarter and Half Year 2021 Condensed interim financial report - supplementary data published on July 21, 2021. 1. Earnings per share (EPS) and Core earnings per share are calculated on the amount of net income and core net income attributable to shareholders of Novartis AG. 2. Effective tax rate is calculated as Income taxes divided by Income before tax from continuing operations. 3. Core effective tax rate is calculated as Core income taxes divided by Core income before tax from continuing operations. 4. The free cash flow impact represents the dividend received in Q1 2021 from Roche in relation to the distribution of its 2020 net income. There was therefore no impact to free cash flow. For more details of the reconciliation of Free cash flow see page 7.

Third quarter and nine months 2021

Reconciliation of 2021 IFRS results and non-IFRS measures core results and free cash flow to exclude the impacts of the 2021 divestment of our Roche investment

(USD million unless indicated otherwise)	Q3 2021			9M 2021		
	Results as published	Our Roche investment impacts	Results excl. impacts from the divestment of our Roche investment	Results as published	Our Roche investment impacts	Results excl. impacts from the divestment of our Roche investment
Operating income from continuing operations	3,233		3,233	9,127		9,127
Income from associated companies	223	-225	-2	718	-722	-4
Interest expense and other financial income and expense	-226		-226	-659		-659
Income before tax from continuing operations	3,230	-225	3,005	9,186	-722	8,464
Income taxes	-472		-472	-1,474		-1,474
Net income	2,758	-225	2,533	7,712	-722	6,990
Earnings per share (USD)¹	1.23	-0.10	1.13	3.44	-0.32	3.12
<i>Effective tax rate²</i>	<i>14.6%</i>		<i>15.7%</i>	<i>16.0%</i>		<i>17.4%</i>
Core operating income from continuing operations	4,467		4,467	12,769		12,769
Core income from associated companies	309	-311	-2	900	-904	-4
Core interest expense and core other financial income and expense	-216		-216	-622		-622
Core income before tax from continuing operations	4,560	-311	4,249	13,047	-904	12,143
Core income taxes	-730		-730	-2,088		-2,088
Core net income	3,830	-311	3,519	10,959	-904	10,055
Core earnings per share (USD)¹	1.71	-0.14	1.57	4.88	-0.40	4.48
<i>Core effective tax rate³</i>	<i>16.0%</i>		<i>17.2%</i>	<i>16.0%</i>		<i>17.2%</i>
Free cash flow⁴	4,423		4,423	10,255	-522	9,733

Core results and free cash flow are non-IFRS measures. An explanation of non-IFRS measures can be found on page 65 in the 2021 Form 20-F as filed with the SEC on February 2, 2022, and a reconciliation from IFRS results to core results can be found on page 49 of the Novartis Third Quarter and Nine Months 2021 Condensed interim financial report - supplementary data published on October 26, 2021. 1. Earnings per share (EPS) and Core earnings per share are calculated on the amount of net income and core net income attributable to shareholders of Novartis AG. 2. Effective tax rate is calculated as Income taxes divided by Income before tax from continuing operations. 3. Core effective tax rate is calculated as Core income taxes divided by Core income before tax from continuing operations. 4. The free cash flow impact represents the dividend received in Q1 2021 from Roche in relation to the distribution of its 2020 net income. There was therefore no impact to free cash flow as published for Q3 2021. For more details of the reconciliation of Free cash flow see page 7.

Fourth quarter and full year 2021

Reconciliation of 2021 IFRS results and non-IFRS measures core results and free cash flow to exclude the impacts of the 2021 divestment of our Roche investment

(USD million unless indicated otherwise)	Q4 2021				FY 2021			
	Results as published	Our Roche investment impacts excl. the divestment gain	Gain on divestment of our investment in Roche	Results excl. impacts from the divestment of our Roche investment	Results as published	Our Roche investment impacts excl. the divestment gain	Gain on divestment of our investment in Roche	Results excl. impacts from the divestment of our Roche investment
Operating income from continuing operations	2,562			2,562	11,689			11,689
Income from associated companies ¹	14,621	-63	-14,556	2	15,339	-785	-14,556	-2
Interest expense and other financial income and expense	-232		-16	-248	-891		-16	-907
Income before tax from continuing operations	16,951	-63	-14,572	2,316	26,137	-785	-14,572	10,780
Income taxes	-645			-645	-2,119			-2,119
Net income	16,306	-63	-14,572	1,671	24,018	-785	-14,572	8,661
Earnings per share (USD)²	7.29	-0.03	-6.51	0.75	10.71	-0.35	-6.50	3.86
<i>Effective tax rate³</i>	<i>3.8%</i>			<i>27.8%</i>	<i>8.1%</i>			<i>19.7%</i>
Core operating income from continuing operations	3,819			3,819	16,588			16,588
Core income from associated companies ¹	93	-91		2	993	-995		-2
Core interest expense and core other financial income and expense	-230			-230	-852			-852
Core income before tax from continuing operations	3,682	-91		3,591	16,729	-995		15,734
Core income taxes	-547			-547	-2,635			-2,635
Core net income	3,135	-91		3,044	14,094	-995		13,099
Core earnings per share (USD)²	1.40	-0.04		1.36	6.29	-0.45		5.84
<i>Core effective tax rate⁴</i>	<i>14.9%</i>			<i>15.2%</i>	<i>15.8%</i>			<i>16.7%</i>
Free cash flow⁵	3,027			3,027	13,282	-522		12,760

Core results and free cash flow are non-IFRS measures. An explanation of non-IFRS measures can be found on page 65 in the 2021 Form 20-F as filed with the SEC on February 2, 2022, and a reconciliation from IFRS results to core results can be found on page 52 of the Novartis Fourth Quarter and Full Year 2021 Condensed financial report - supplementary data published on February 2, 2022. 1. As a result of the decision to divest our investment in Roche, the Group discontinued the recognition of its share of income of Roche from November 3, 2021. 2. Earnings per share (EPS) and Core earnings per share are calculated on the amount of net income and core net income attributable to shareholders of Novartis AG. 3. Effective tax rate is calculated as Income taxes divided by Income before tax from continuing operations. 4. Core effective tax rate is calculated as Core income taxes divided by Core income before tax from continuing operations. 5. The free cash flow impact represents the dividend received in Q1 2021 from Roche in relation to the distribution of its 2020 net income. There was therefore no impact to free cash flow as published for Q4 2021. For more details of the reconciliation of Free cash flow see page 7.

Reconciliation of Non-IFRS measure free cash flow

To exclude the impacts of the 2021 divestment of our Roche investment

	Q1 2021			HY 2021			9M 2021			FY 2021		
	Free cash flow as published	Dividends received from Roche in relation to the distribution of its 2020 net income ¹	Free cash flow excluding dividends received from Roche	Free cash flow as published	Dividends received from Roche in relation to the distribution of its 2020 net income ¹	Free cash flow excluding dividends received from Roche	Free cash flow as published	Dividends received from Roche in relation to the distribution of its 2020 net income ¹	Free cash flow excluding dividends received from Roche	Free cash flow as published	Dividends received from Roche in relation to the distribution of its 2020 net income ¹	Free cash flow excluding dividends received from Roche
(USD million)												
Operating income	2,415		2,415	5,894		5,894	9,127		9,127	11,689		11,689
Adjustments for non-cash items	2,010		2,010	3,326		3,326	5,227		5,227	7,030		7,030
Operating income adjusted for non-cash items	4,425		4,425	9,220		9,220	14,354		14,354	18,719		18,719
Dividends received from associated companies and others	522	-522	0	523	-522	1	523	-522	1	525	-522	3
Interest and other financial payments, net	-391		-391	-617		-617	-766		-766	-953		-953
Income taxes paid	-735		-735	-1,144		-1,144	-1,459		-1,459	-2,342		-2,342
Other operating cash flow items, net	-1,691		-1,691	-1,720		-1,720	-1,465		-1,465	-878		-878
Net cash flows from operating activities	2,130	-522	1,608	6,262	-522	5,740	11,187	-522	10,665	15,071	-522	14,549
Net purchases of property, plant and equipment, intangible assets, financial assets and other non-current assets	-533		-533	-430		-430	-932		-932	-1,789		-1,789
Free cash flow	1,597	-522	1,075	5,832	-522	5,310	10,255	-522	9,733	13,282	-522	12,760

Free cash flow is a non-IFRS measure. An explanation of non-IFRS measures can be found on page 65 in the 2021 Form 20-F as filed with the SEC on February 2, 2022. A summary of the free cash flow can be found on page 42 of the Novartis First Quarter 2021 Condensed interim financial report - supplementary data published on April 27, 2021, on page 58 of the Novartis Second Quarter and Half Year 2021 Condensed interim financial report - supplementary data published on July 21, 2021, on page 58 of the Novartis Third Quarter and Nine Months 2021 Condensed interim financial report - supplementary data published on October 26, 2021 and on page 62 of the Novartis Fourth Quarter and Full Year 2021 Condensed financial report - supplementary data published on February 2, 2022. ¹ In 2021, the dividend received from Roche in relation to the distribution of its 2020 net income was received in Q1 2021, therefore there was no impact to free cash flow as published for Q2 2021, Q3 2021 or Q4 2021.